THE HIGH PRICE

OF

BULLION,

A PROOF OF

THE DEPRECIATION

OF

BANK NOTES.

THIRD EDITION,

WITH ADDITIONS.

BY DAVID RICARDO.

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INTRODUCTION.

THE writer of the following pages has already submitted some reflections to the attention of the public, on the subject of paper-currency, through the medium of the Morning Chronicle. He has thought proper to republish his sentiments on this question in a form more calculated to bring it to fair discussion; and his reasons for so doing, are, that he has seen, with the greatest alarm, the progressive depreciation of the paper-currency. His fears have been augmented by observing, that by a great part of the public this depreciation is altogether denied, and that by others, who admit the fact, it is imputed to any cause but that which to him appears the real one. Before any remedy can be successfully applied to an evil of such magnitude, it is essential that there should be no doubt as to its cause. The writer proposes, from the admitted principles of political economy, to advance reasons, which, in his opinion, prove, that the paper-currency of this country has long been, and now is, at a

considerable discount, proceeding from a superabundance in its quantity, and not from any want of confidence in the Bank of England, or from any doubts of their ability to fulfil their engagements. He does this without reluctance, being fully persuaded that the country is yet in possession of the means of restoring the paper-currency to its professed value, viz. the value of the coins, for the payment of which it purports to be a pledge.

He is aware that he can add but little to the arguments which have been so ably urged by Lord King, and which ought long before this to have carried conviction to every mind; but he trusts, that as the evil has become more glaring, the public will not continue to view, without interest, a subject which yields to no other in importance, and in which the general welfare is so materially concerned.

Dec. 1, 1809.

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THE DEPRECIATION OF BANK NOTES.

THE precious metals employed for circulating the commodities of the world, previously to the establishment of banks, have been supposed by the most approved writers on political economy to have been divided into certain proportions among the different civilized nations of the earth, according to the state of their commerce and wealth, and therefore according to the number and frequency of the payments which they had to perform. While so divided they preserved every where the same value, and as each country had an equal necessity for the quantity actually in use, there could be no temptation offered to either for their importation or exportation.

Gold and silver, like other commodities, have an intrinsic value, which is not arbitrary, but is depend-

ent on their scarcity, the quantity of labour bestowed in procuring them, and the value of the capital employed in the mines which produce them.

"The quality of utility, beauty, and scarcity," says Dr. Smith, "are the original foundation of the "high price of those metals, or of the great quan-"tity of other goods for which they can every where "be exchanged. This value was antecedent to, and "independent of their being employed as coin, and "was the quality which fitted them for that employ-"ment."

If the quantity of gold and silver in the world employed as money were exceedingly small, or abundantly great, it would not in the least affect the proportions in which they would be divided among the different nations—the variation in their quantity would have produced no other effect than to make the commodities for which they were exchanged comparatively dear or cheap. The smaller quantity of money would perform the functions of a circulating medium, as well as the larger. Ten millions would be as effectual for that purpose as one hundred millions. Dr. Smith observes, "that the most abund-"ant mines of the precious metals would add little to "the wealth of the world. A produce of which the "value is principally derived from its scarcity is ne-"cessarily degraded by its abundance."

If in the progress towards wealth, one nation advanced more rapidly than the others, that nation would require and obtain a greater proportion of the

money of the world. Its commerce, its commodities, and its payments, would increase, and the general currency of the world would be divided according to the new proportions. All countries therefore would contribute their share to this effectual demand.

In the same manner if any nation wasted part of its wealth, or lost part of its trade, it could not retain the same quantity of circulating medium which it before possessed. A part would be exported, and divided among the other nations till the usual proportions were re-established.

While the relative situation of countries continued unaltered, they might have abundant commerce with each other, but their exports and imports would on the whole be equal. England might possibly import more goods from, than she would export to, France, but she would in consequence export more to some other country, and France would import more from that country; so that the exports and imports of all countries would balance each other; bills of exchange would make the necessary payments, but no money would pass, because it would have the same value in all countries.

If a mine of gold were discovered in either of these countries, the currency of that country would be lowered in value in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries. Gold and silver, whether in coin or in bullion, obeying the law which

regulates all other commodities, would immediately become articles of exportation; they would leave the country where they were cheap, for those countries where they were dear, and would continue to do so, as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine, were again established, and gold and silver restored every where to one value. In return for the gold exported, commodities would be imported; and though what is usually termed the balance of trade would be against the country exporting money or bullion, it would be evident that she was carrying on a most advantageous trade, exporting that which was no way useful to her, for commodities which might be employed in the extension of her manufactures, and the increase of her wealth.

If instead of a mine being discovered in any country, a bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium; after a large amount had been issued either by way of loan to merchants, or by advances to government, thereby adding considerably to the sum of the currency, the same effect would follow as in the case of the mine. The circulating medium would be lowered in value, and goods would experience a proportionate rise. The equilibrium between that and other nations would only be restored by the exportation of part of the coin.

The establishment of the bank and the consequent

issue of its notes therefore, as well as the discovery of the mine, operate as an inducement to the exportation either of bullion or of coin, and are beneficial only in as far as that object may be accomplished. The bank substitutes a currency of no value for one most costly, and enables us to turn the precious metals (which, though a very necessary part of our capital, yield no revenue,) into a capital which will yield one. Dr. A. Smith compares the advantages attending the establishment of a bank to those which would be obtained by converting our highways into pastures and corn-fields, and procuring a road through the air. The highways, like the coin, are highly useful, but neither yield any revenue. Some people might be alarmed at the specie leaving the country, and might consider that as a disadvantageous trade which required us to part with it; indeed the law so considers it by its enactments against the exportation of specie; but a very little reflection will convince us that it is our choice, and not our necessity, that sends it abroad; and that it is highly beneficial to us to exchange that commodity which is superfluous, for others which may be made productive.

The exportation of the specie may at all times be safely left to the discretion of individuals, it will not be exported more than any other commodity, unless its exportation should be advantageous to the country. If it be advantageous to export it, no laws can effectually prevent its exportation. Happily in this case, as well as in most others in commerce where

there is free competition, the interests of the individual and that of the community are never at variance.

Were it possible to carry the law against melting or exporting of coin into strict execution, at the same time that the exportation of gold bullion was freely allowed, no advantage could accrue from it, but great injury must arise to those who might have to pay, possibly, two ounces or more of coined gold for one of uncoined gold. This would be a real depreciation of our currency, raising the prices of all other commodities in the same proportion as it increased that of gold bullion. The owner of money would in this case suffer an injury equal to what a proprietor of corn would suffer, were a law to be passed prohibiting him from selling his corn for more than half its market value. The law against the exportation of the coin has this tendency, but is so easily evaded, that gold in bullion has always been nearly of the same value as gold in coin.

Thus then it appears that the currency of one country can never for any length of time be much more valuable, as far as equal quantities of the precious metals are concerned, than that of another; that excess of currency is but a relative term; that if the circulation of England were ten millions, that of France five millions, that of Holland four millions, &c. &c. whilst they kept their proportions, though the currency of each country were doubled or trebled, neither country would be conscious of an excess of currency. The prices of commodities would every

where rise, on account of the increase of currency, but there would be no exportation of money from either. But if these proportions be destroyed by England alone doubling her currency, while that of France, Holland, &c. &c. continued as before, we should then be conscious of an excess in our currency, and for the same reason the other countries would feel a deficiency in theirs, and part of our excess would be exported till the proportions of ten, five, four, &c. were again established.

If in France an ounce of gold were more valuable than in England, and would therefore in France purchase more of any commodity common to both countries, gold would immediately quit England for such purpose, and we should send gold in preference to any thing else, because it would be the cheapest exchangeable commodity in the English market; for if gold be dearer in France than in England, goods must be cheaper; we should not therefore send them from the dear to the cheap market, but, on the contrary, they would come from the cheap to the dear market, and would be exchanged for our gold.

The Bank might continue to issue their notes, and the specie be exported with advantage to the country, while their notes were payable in specie on demand, because they could never issue more notes than the value of the coin which would have circulated had there been no bank.*

* They might, strictly speaking, rather exceed that quantity, because as the Bank would add to the currency of the world, England would retain its share of the increase.

If they attempted to exceed this amount, the excess would be immediately returned to them for specie; because our currency, being thereby diminished in value, could be advantageously exported, and could not be retained in our circulation. These are the means, as I have already explained, by which our currency endeavours to equalize itself with the currencies of other countries. As soon as this equality was attained, all advantage arising from exportation would cease; but if the Bank assuming, that because a given quantity of circulating medium had been necessary last year, therefore the same quantity must be necessary this, or for any other reason, continued to re-issue the returned notes, the stimulus which a redundant currency first gave to the exportation of the coin would be again renewed with similar effects; gold would be again demanded, the exchange would become unfavourable, and gold bullion would rise, in a small degree, above its mint price, because it is legal to export bullion, but illegal to export the coin, and the difference would be about equal to the fair compensation for the risk.

In this manner if the Bank persisted in returning their notes into circulation, every guinea might be drawn out of their coffers.

If to supply the deficiency of their stock of gold they were to purchase gold bullion at the advanced price, and have it coined into guineas, this would not remedy the evil, guineas would be still demanded, but instead of being exported would be melted and

sold to the Bank as bullion at the advanced price. "The operations of the Bank," observed Dr. Smith, alluding to an analogous case, "were upon this account somewhat like the web of Penelope, the work that was done in the day was undone in the night." The same sentiment is expressed by Mr. Thornton:-- "Finding the guineas in their coffers to lessen every day, they must naturally be supposed to be desirous of replacing them by all effectual and not extravagantly expensive means. They will be disposed, to a certain degree, to buy gold, though at a losing price, and to coin it into new guineas; but they will have to do this at the very moment when many are privately melting what is coined. The one party will be melting and selling while the other is buying and coining. And each of these two contending businesses will now be carried on, not on account of an actual exportation of each melted guinea to Hamburgh, but the operation or at least a great part of it will be confined to London; the coiners and the melters living on the same spot, and giving constant employment to each other.

"The Bank," continues Mr. Thornton, "if we suppose it, as we now do, to carry on this sort of contest with the melters, is obviously waging a very unequal war; and even though it should not be tired early, it will be likely to be tired sooner than its adversaries."

The Bank would be obliged therefore ultimately to adopt the only remedy in their power to put a stop to

the demand for guineas. They would withdraw part of their notes from circulation, till they should have increased the value of the remainder to that of gold bullion, and consequently to the value of the currencies of other countries. All advantage from the exportation of gold bullion would then cease, and there would be no temptation to exchange bank-notes for guineas.

In this view of the subject, then, it appears, that the temptation to export money in exchange for goods, or what is termed an unfavourable balance of trade, never arises but from a redundant currency. But Mr. Thornton, who has considered this subject very much at large, supposes that a very unfavourable balance of trade may be occasioned to this country by a bad harvest, and the consequent importation of corn; and that there may be at the same time an unwillingness in the country, to which we are indebted, to receive our goods in payment; the balance due to the foreign country must therefore be paid out of that part of our currency, consisting of coin, and that hence arises the demand for gold bullion and its increased price. He considers the Bank as affording considerable accommodation to the merchants, by supplying with their notes the void occasioned by the exportation of the specie.

As it is acknowledged by Mr. Thornton, in many parts of his work, that the price of gold bullion is rated in gold coin; and as it is also acknowledged by him, that the law against melting gold coin into bul-

lion and exporting it is easily evaded, it follows, that no demand for gold bullion, arising from this or any other cause, can raise the money price of that commodity. The error of this reasoning proceeds from not distinguishing between an increase in the value of gold, and an increase in its money price.

If there were a great demand for corn its money price would advance; because, in comparing corn with money, we in fact compare it with another commodity; and for the same reason, when there is a great demand for gold its corn price will increase; but in neither case will a bushel of corn be worth more than a bushel of corn, or an ounce of gold more than an ounce of gold. An ounce of gold bullion could not, whatever the demand might be, whilst its price was ratèd in gold coin, be of more value than an ounce of coined gold, or *3l. 17s. 10½d.*

If this argument should not be considered as conclusive, I should urge, that a *void* in the currency, as here supposed, can only be occasioned by the annihilation or limitation of paper currency, and then it would speedily be filled by importations of bullion, which its increased value, in consequence of the diminution of circulating medium, would infallibly attract to the advantageous market. However great the scarcity of corn might be, the exportation of money would be limited by its increasing scarcity. Money is in such general demand, and in the present state of civilization is so essential to commercial transactions, that it can never be exported to excess; even in a war

such as the present, when our enemy endeavours to interdict all commerce with us, the value which the currency would bear from its increasing scarcity, would prevent the exportation of it from being carried so far as to occasion a void in the circulation.

Mr. Thornton has not explained to us, why any unwillingness should exist in the foreign country to receive our goods in exchange for their corn ; and it would be necessary for him to shew, that if such an unwillingness were to exist, we should agree to indulge it so far as to consent to part with our coin.

If we consent to give coin in exchange for goods, it must be from choice, not necessity. We should not import more goods than we export, unless we had a redundancy of currency, which it therefore suits us to make a part of our exports. The exportation of the coin is caused by its cheapness, and is not the effect, but the cause of an unfavourable balance : we should not export it, if we did not send it to a better market, or if we had any commodity which we could export more profitably. It is a salutary remedy for a redundant currency; and as I have already endeavoured to prove, that redundancy or excess is only a relative term, it follows, that the demand for it abroad arises only from the comparative deficiency of the currency of the importing country, which there causes its superior value.

It resolves itself entirely into a question of interest. If the sellers of the corn to England, to the amount I will suppose of a million, could import goods which

cost a million in England, but would produce, when sold abroad, more than if the million had been sent in money, goods would be preferred ; if otherwise, money would be demanded.

It is only after a comparison of the value in their markets and in our own, of gold and other commodities, and because gold is cheaper in the London market than in their's, that foreigners prefer gold in exchange for their corn. If we diminish the quantity of currency, we give an additional value to it : this will induce them to alter their election, and prefer the commodities. If I owed a debt in Hamburgh of 100*l.*, I should endeavour to find out the cheapest mode of paying it. If I send money, the expence attending its transportation being, I will suppose 5*l.*, to discharge my debt will cost me 105*l.* If I purchase cloth here, which, with the expences attending its exportation, will cost me 106*l.*, and which will, in Hamburgh, sell for 100*l.*, it is evidently more to my advantage to send the money. If the purchase and expences of sending hardware to pay my debt, will take 107*l.*, I should prefer sending cloth to hardware, but I would send neither in preference to money, because money would be the cheapest exportable commodity in the London market. The same reasons would operate with the exporter of the corn, if the transaction were on his own account. But if the Bank, "fearful for the safety of their establishment," and knowing that the requisite number of guineas would be withdrawn from their coffers at the

mint price, should think it necessary to diminish the amount of their notes in circulation, the proportion between the value of the money, of the cloth, and of the hardware, would no longer be as 105, 106, and 107; but the money would become the most valuable of the three, and therefore would be less advantageously employed in discharging the foreign debt.

If, which is a much stronger case, we agreed to pay a subsidy to a foreign power, money would not be exported whilst there were any goods, which could more cheaply discharge the payment. The interest of individuals would render the exportation of the money unnecessary.*

Thus then specie will be sent abroad to discharge a debt only when it is superabundant; only when it is the cheapest exportable commodity. If the Bank were at such a time paying their notes in specie, gold would be demanded for that purpose. It would be obtained there at its mint price, whereas its price as

* This is strongly corroborated, by the statement of Mr. Rose, in the House of Commons, that our exports exceeded our imports by (I believe) sixteen millions. In return for those exports no bullion could have been imported, because it is well known, that the price of bullion having been during the whole year higher abroad than in this country, a large quantity of our gold coin has been exported. To the value of the balance of exports, therefore, must be added the value of the bullion exported. A part of the amount may be due to us from foreign nations, but the remainder must be precisely equal to our foreign expenditure, consisting of subsidies to our allies, and the maintenance of our fleets and armies on foreign stations.

bullion would be something above its value as coin, because bullion could, and coin could not, be legally exported.

It is evident, then, that a depreciation of the circulating medium is the necessary consequence of its redundance; and that in the common state of the national currency this depreciation is counteracted by the exportation of the precious metals.*

*It has been observed, in a work of great and deserved repute, the Edinburgh Review,‡ that an increase in the paper currency will only occasion a rise in the *paper* or *currency* price of commodities, but will not cause an increase in their bullion price.

This would be true at a time when the currency consisted wholly of paper not convertible into specie, but not while specie formed any part of the circulation. In the latter case the effect of an increased issue of paper would be to throw out of circulation an equal amount of specie; but this could not be done without adding to the quantity of bullion in the market, and thereby lowering its value, or in other words, *increasing the bullion price of commodities.* It is only in consequence of this fall in the value of the metallic currency, and of bullion, that the temptation to export them arises; and the penalties on melting the coin is the sole cause of a small difference between the value of the coin and of bullion, or a small excess of the market above the mint price. But exporting of bullion is synonymous with an unfavourable balance of trade. From whatever cause an exportation of bullion, in exchange for commodities, may proceed, it is called (I think very incorrectly) an unfavourable balance of trade.

It is highly essential to a due understanding of this subject, that we should accurately distinguish between cause and effect. In the work to which I have already alluded, it is said, § "When the "local rise of the price of goods consists in the actual increase of

‡ Vol. 1, page 183. § Page 184.

Such, then, appear to me to be the laws that regulate the distribution of the precious metals throughout the world, and which cause and limit their circulation from one country to another, by regulating their value in each. But before I proceed to examine on these principles the main object of my enquiry, it is necessary that I should shew what is the standard measure of value in this country, and of which, therefore, our paper currency ought to be the representative, because it can only be by a comparison to this standard that its regularity, or its depreciation, may be estimated.

" their bullion price, a real fall of the foreign exchange will gene-
" rally take place, and will *occasion*, by the demand for bullion to
" be exported, a fluctuating excess of the market price above the
" mint price of gold." Here, and in many other parts of the same article, the fall in the exchange, or the unfavourable balance of trade, is stated to be the *cause* of the excess of the market above the mint price of gold, but to me it appears to be the *effect* of such excess. An increase of paper currency we have just seen, lowers the value of gold bullion but raises its money price. It is the fall in its value which causes its exportation, and therefore the fall of the exchange.

When the circulation consists wholly of paper, any increase in its quantity, will raise the *money* price of bullion without lowering its *value*, in the same manner, and in the same proportion, as it will raise the prices of other commodities, and for the same reason will lower the foreign exchanges; but this will only be a *nominal*, not a *real* fall, and will not occasion the exportation of bullion, because the real value of bullion will not be diminished, as there will be no increase to the quantity in the market.

No permanent * measure of value can be said to exist in any nation, while the circulating medium consists of two metals, because they are constantly subject to vary in value with respect to each other. However exact the conductors of the mint may be, in proportioning the relative value of gold to silver in the coins, at the time when they fix the ratio, they cannot prevent one of these metals from rising, while the other remains stationary, or falls in value. Whenever this happens, one of the coins will be melted to be sold for the other. The great Mr. Locke, Lord Liverpool, and many other writers, have ably considered this subject, and have all agreed, that the only remedy for the evils in the currency proceeding from this source, is the making one of the metals only, the standard measure of value. Mr. Locke considered silver as the most proper metal for this purpose, and proposed that gold coins should be left to find their own value, and pass for a greater or lesser number of

* Strictly speaking, there can be no permanent measure of value. A measure of value should itself be invariable; but this is not the case with either gold or silver, they being subject to fluctuations as well as other commodities. Experience has indeed taught us, that though the variations in the *value* of gold or silver may be considerable, on a comparison of distant periods, yet for short spaces of time their value is tolerably fixed. It is this property, among their other excellencies, which fits them better than any other commodity for the uses of money. Either gold or silver may therefore, in the point of view in which we are considering them, be called a measure of value.

shillings, as the market price of gold might vary with respect to silver.

Lord Liverpool, on the contrary, maintained that gold was not only the most proper metal for a general measure of value in this country, but that, by the common consent of the people, it had become so, was so considered by foreigners, and that it was best suited to the increased commerce and wealth of England.

He, therefore, proposed, that gold coin only should be a legal tender for sums exceeding one guinea, and silver coins for sums not exceeding that amount. As the law now stands, gold coin is a legal tender for all sums; but it was enacted in the year 1774, "That "no tender in payment of money made in the silver "coin of this realm, of any sum exceeding the sum of "twenty-five pounds at any one time, shall be reputed "in law, or allowed to be legal tender within Great-"Britain or Ireland, for more than according to its "value by weight, after the rate of 5*s*. 2*d*. for each "ounce of silver." The same regulation was revived in 1798, and is now in force.

For many reasons given by Lord Liverpool, it appears proved beyond dispute, that gold coin has been for near a century the principal measure of value, but this is, I think, to be attributed to the inaccurate determination of the mint proportions. Gold has been valued too high; no silver, therefore, can remain in circulation which is of its standard weight.

If a new regulation were to take place, and silver to be valued too high, or (which is the same thing) if

the market proportions between the prices of gold and silver were to become greater than those of the mint, gold would then disappear, and silver become the standard currency.

This may require further explanation. The relative value of gold and silver in the coins is as $15\frac{9}{124}$ to 1. An ounce of gold which is coined into *3l.* 17*s.* $10\frac{1}{2}$*d.* of gold coin, is worth, according to the mint regulation, $15\frac{9}{124}$ ounces of silver, because that weight of silver is also coined into *3l.* 17*s.* $10\frac{1}{2}$*d.* of silver coin. Whilst the relative value of gold to silver is in the market under 15 to 1, which it has been for a great number of years till lately, gold coin would necessarily be the standard measure of value, because neither the Bank, or any individual, would then send $15\frac{9}{124}$ ozs. of silver to the mint to be coined into *3l.* 17*s.* $10\frac{1}{2}$*d.* when they could sell that quantity of silver in the market for more than *3l.* 17*s.* $10\frac{1}{2}$*d.* in gold coin, and this they could do by the supposition, that less than 15 ounces of silver would purchase an ounce of gold.

But if the relative value of gold to silver be more than the mint proportion of $15\frac{9}{124}$ to 1, no gold would then be sent to the mint to be coined, because as either of the metals are a legal tender to any amount, the possessor of an ounce of gold would not send it to the mint to be coined into *3l.* 17*s.* $10\frac{1}{2}$*d.* of gold coin, whilst he could sell it, which he could do in such case, for more than *3l.* 17*s.* $10\frac{1}{2}$*d.* of silver coin. Not only would not gold be carried to the mint to be coined, but the illicit trader would melt the gold coin, and sell

it as bullion for more than its nominal value in the silver coin. Thus then gold would disappear from circulation, and silver coin become the standard measure of value. As gold has lately experienced a considerable rise compared with silver, (an ounce of standard gold, which, on an average of many years, was of equal value to $14\frac{3}{4}$ ozs. of standard silver, being now in the market of the same value as $15\frac{1}{2}$ oz.) this would be the case now were the Bank Restriction-bill repealed, and the coinage of silver freely allowed at the mint, in the same manner as that of gold; but in an act of parliament of 39 Geo. III. is the following clause:—

"Whereas inconvenience may arise from any coinage of silver "until such regulations may be formed as shall appear necessary; "and whereas from the present low price of silver bullion, owing "to temporary circumstances, a small quantity of silver bullion "has been brought to the mint to be coined, and there is reason to "suppose that a still further quantity may be brought; and it is "therefore necessary to suspend the coining of silver for the pre"sent; be it therefore enacted, That from and after the passing of "this act, no silver bullion shall be coined at the mint, nor shall "any silver coin that may have been coined there be delivered, any "law to the contrary notwithstanding."

This law is now in force.

It would appear, therefore, to have been the intention of the legislature to establish gold as the standard of currency in this country. Whilst this law is in force, silver coin must be confined to small payments only, the quantity in circulation being barely sufficient for that purpose. It might be for the interest of a

debtor to pay his large debts in silver coin if he could get silver bullion coined into money; but being prevented by the above law from doing so, he is necessarily obliged to discharge his debt with gold coin, which he could obtain at the mint with gold bullion to any amount. Whilst this law is in force, gold must always continue to be the standard of currency.

Were the market value of an ounce of gold to become equal to thirty ounces of silver, gold would nevertheless be the measure of value, whilst this prohibition continued in force. It would be of no avail, that the possessor of 30 ounces of silver should know that he once could have discharged a debt of *3l.* 17*s.* 10½*d.* by procuring $15\frac{9}{124}$ ounces of silver to be coined at the mint, as he would in this case have no other means of discharging his debt but by selling his 30 oz. of silver at the market value, that is to say, for one ounce of gold, or *3l.* 17*s.* 10½*d.* of gold coin.

The public has sustained, at different times, very serious loss from the depreciation of the circulating medium, arising from the unlawful practice of clipping the coins.

In proportion as they become debased, so the prices of every commodity for which they are exchangeable rise in nominal value, not excepting gold and silver bullion: accordingly we find, that before the re-coinage in the reign of King William the Third, the silver currency had become so degraded, that an ounce of silver, which ought to be contained in sixty-two pence,

sold for seventy-seven pence; and a guinea, which was valued at the mint at twenty shillings, passed in all contracts for thirty shillings. This evil was then remedied by the re-coinage. Similar effects followed from the debasement of the gold currency, which were again corrected in 1774 by the same means.

Our gold coins have, since 1774, continued nearly at their standard purity; but our silver currency has again become debased. By an assay at the mint in 1798, it appears that our shillings were found to be twenty-four per cent., and our sixpences thirty-eight per cent. under their mint value; and I am informed, that by a late experiment they were found considerably more deficient. They do not, therefore, contain as much pure silver as they did in the reign of King William. This debasement, however, did not operate previously to 1798, as on the former occasion. At that time both gold and silver bullion rose in proportion to the debasement of the silver coin. All foreign exchanges were against us full twenty per cent., and many of them still more. But although the debasement of the silver coin had continued for many years, it had neither, previously to 1798, raised the price of gold or silver, nor had it produced any effect on the exchanges. This is a convincing proof, that gold coin was, during that period, considered as the standard measure of value. Any debasement of the gold coin would then have produced the same effects on the price of gold and silver bullion, and on the foreign exchanges, which

were formerly caused by the debasement of the silver coins*.

While the currency of different countries consists of the precious metals, or of a paper money, which is at all times exchangeable for them ; and while the metallic currency is not debased by wearing, or clipping, a comparison of the weight, and degree of fineness of their coins, will enable us to ascertain their par of exchange. Thus the par of exchange between Holland and England is stated to be about eleven florins, because the pure silver contained in eleven florins is equal to the pure silver contained in twenty standard shillings.

This par is not, nor can it be, absolutely fixed ; because, gold coin being the standard of commerce in England, and silver coin in Holland, a pound sterling, or $\frac{20}{21}$ of a guinea, may at different times be more or less valuable than twenty standard shillings, and therefore more or less valuable than its equivalent of eleven florins. Estimating the par either by silver or by gold will be sufficiently exact for our purpose.

If I owe a debt in Holland ; by knowing the par of exchange, I also know the quantity of our money which will be necessary to discharge it.

* When the gold coin was debased, previously to the re-coinage in 1774, gold and silver bullion rose above their mint prices, and fell immediately on the gold coin attaining its present perfection. The exchanges were, owing to the same causes, from being unfavourable rendered favourable.

If my debt amount to 1100 florins, and gold have not varied in value, 100*l*. in our pure gold coin will purchase as much Dutch currency as is necessary to pay my debt. By exporting the 100*l*. therefore in coin, or (which is the same thing) paying a bullion merchant the 100*l*. in coin, and allowing him the expences attending its transportation, such as freight, insurance, and his profit, he will sell me a bill which will discharge my debt; at the same time he will export the bullion, to enable his correspondent to pay the bill when it shall become due.

These expences then are the utmost limits of an unfavourable exchange. However great my debt may be, though it equalled the largest subsidy ever given by this country to an ally; while I could pay the bullion-merchant in coin of standard value, he would be glad to export it, and to sell me bills. But if I pay him for his bill in a debased coin, or in a depreciated paper-money, he will not be willing to sell me his bill at this rate; because if the coin be debased, it does not contain the quantity of pure gold or silver which ought to be contained in 100*l*., and he must therefore export an additional number of such debased pieces of money, to enable him to pay my debt of 100*l*., or its equivalent, 1100 florins. If I pay him in paper-money; as he cannot send it abroad, he will consider whether it will purchase as much gold or silver bullion as is contained in the coin for which it is a substitute: if it will do this, paper will be as acceptable to him as coin; but if it will not, he will expect a further pre-

mium for his bill, equal to the depreciation of the paper.

While the circulating medium consists, therefore, of coin undebased, or of paper-money immediately exchangeable for undebased coin, the exchange can never be more above, or more below, par, than the expences attending the transportation of the precious metals. But when it consists of a depreciated paper-money, it necessarily will fall according to the degree of the depreciation.

The exchange will, therefore, be a tolerably accurate criterion by which we may judge of the debasement of the currency, proceeding either from a clipped coinage, or a depreciated paper-money.

It is observed by Sir James Stuart, "That if the "foot measure was altered at once over all England, "by adding to it, or taking from it, any proportional "part of its standard length, the alteration would be "best discovered, by comparing the new foot with "that of Paris, or of any other country, which had "suffered no alteration.

"Just so, if the pound sterling, which is the En-"glish unit, shall be found any how changed; and if "the variation it has met with be difficult to ascertain, "because of a complication of circumstances; the best "way to discover it will be to compare the former "and the present value of it, with the money of other "nations which has suffered no variation. This the "exchange will perform with the greatest exact-"ness."

The Edinburgh reviewers, in speaking of Lord King's pamphlet, observe, that "it does not follow "because our imports always consist partly of bullion, "that the balance of trade is therefore permanently in "our favour. Bullion," they say, "is a commodity, for "which, as for every other, there is a varying de- "mand; and which, exactly like any other, may enter "the catalogue either of imports or exports; and this "exportation or importation of bullion will not affect "the course of exchange in a different way from the "exportation or importation of any other commodi- "ties."

No person ever exports or imports bullion without first considering the rate of exchange. It is by the rate of exchange that he discovers the relative value of bullion in the two countries between which it is estimated. It is therefore consulted by the bullion-merchant in the same manner as the price-current is by other merchants, before they determine on the exportation or importation of other commodities. If eleven florins in Holland contain an equal quantity of pure silver as twenty standard shillings, silver bullion, equal in weight to twenty standard shillings, can never be exported from London to Amsterdam whilst the exchange is at par, or unfavourable to Holland. Some expence and risk must attend its exportation, and the very term *par*, expresses that a quantity of silver bullion, equal to that weight and purity, is to be obtained in Holland by the purchase of a bill of exchange, free of all expence. Who would send bul-

lion to Holland at an expence of three or four per cent. when, by the purchase of a bill at par, he in fact obtains an order for the delivery to his correspondent in Holland, of the same weight of bullion which he was about to export ?

It would be as reasonable to contend, that when the price of corn is higher in England than on the Continent, corn would be sent, notwithstanding all the charges on its exportation, to be sold in the cheaper market.

Having already noticed the disorders to which a metallic currency is exposed, I will proceed to consider those which, though not caused by the debased state of either the gold or silver coins, are nevertheless more serious in their ultimate consequences.

Our circulating medium is almost wholly composed of paper, and it behoves us to guard against the depreciation of the paper currency with at least as much vigilance as against that of the coins.

This we have neglected to do.

Parliament, by restricting the Bank from paying in specie, have enabled the conductors of that concern to increase or decrease at pleasure the quantity and amount of their notes; and the previously existing checks against an over-issue having been thereby removed, those conductors have acquired the power of increasing or decreasing the value of the paper currency.

In tracing the present evils to their source, and proving their existence by an appeal to the two uner-

ring tests I have before mentioned, namely, the rate of exchange and the price of bullion, I shall avail myself of the account given by Mr. Thornton of the conduct of the Bank before the restriction, to shew how clearly they acted on the principle which he has expressly acknowledged, viz. that the value of their notes is dependent on their amount, and that they ascertained the variation in their value by the tests I have just referred to.

Mr. Thornton tells us, "That if at any time the "exchanges of the country became so unfavourable "as to produce a material excess of the market above "the mint price of gold," [here the cause is mistaken for the effect] "the directors of the Bank, as appears "by the evidence of some of their body, given to "parliament, were disposed to resort to a reduction of "their paper, as a means of diminishing or removing "the excess, and of *thus providing for the security "of their establishment.* They moreover have at all "times," he says, "been accustomed to observe some "limit as to the quantity of their notes for the same "prudential reasons." And in another place: "When "the price which our coin will fetch in foreign coun"tries, is such as to tempt it out of the kingdom, the "directors of the Bank naturally diminish, in some "degree, the quantity of their paper *through an anxi"ety for the safety of their establishment.* By di"minishing their paper, they raise its value; and in "raising its value, they raise also the value in Eng-

" land, of the current coin which is exchanged for it. " Thus the value of our gold coin conforms itself to the " value of the current paper, and the current paper is " rendered by the Bank-directors, of that value which " it is necessary that it should bear in order to prevent " large exportations ;—a value sometimes rising a little " above, and sometimes falling a little below, the price " which our coin bears abroad."

The necessity which the Bank felt itself under to guard the safety of its establishment, therefore, always prevented, before the restriction from paying in specie, a too lavish issue of paper money.

Thus we find that, for a period of twenty-three years previously to the suspension of cash payments in 1797, the average price of gold bullion was *3l.* 17*s.* 7¼*d.* per oz. about 2¼*d.* under the mint price; and for sixteen years previously to 1774, it never was much above *4l.* per oz. It should be remembered that during these sixteen years our gold coin was debased by wearing, and it is therefore probable that *4l.* of such debased money did not weigh as much as the ounce of gold for which it was exchanged.

Dr. A. Smith considers every permanent excess of the market above the mint price of gold, as referrible to the state of the coins. While the coin was of its standard weight and purity, the market price of gold bullion, he thought, could not greatly exceed the mint price.

Mr. Thornton contends that this cannot be the only

cause. " We have," he says, " lately experienced " fluctuations in our exchanges, and correspondent " variations in the market, compared with the mint " price of gold, amounting to no less than eight or ten " per cent.; the state of our coinage continuing in all " respects the same." Mr. Thornton should have reflected that at the time he wrote, specie could not be demanded at the Bank in exchange for notes; that this was a cause for the depreciation of the currency which Dr. Smith could never have anticipated. If Mr. Thornton had proved that there had been a fluctuation of ten per cent. in the price of gold, while the Bank paid their notes in specie, and the coin was undebased, he would then have convicted Dr. Smith of " having treated this important subject in a defective " and unsatisfactory manner."*

But as all checks against the over-issues of the Bank are now removed by the act of parliament, which restricts them from paying their notes in specie, they are no longer bound by "*fears for the safety of*

* An excess in the market above the mint price of gold or silver bullion, may, whilst the coins of both metals are legal tender, and there is no prohibition against the coinage of either metal, be caused by a variation in the relative value of those metals;—but an excess of the market above the mint price proceeding from this cause will be at once perceived by its affecting only the price of one of the metals. Thus gold would be at or below, while silver was above, its mint price, or silver at or below its mint price, whilst gold was above.

In

their establishment," to limit the quantity of their notes to that sum which shall keep them of the same value as the coin which they represent. Accordingly we find that gold bullion has risen from *3l.* 17*s.* 7½*d.* the average price previously to 1797, to *4l.* 10*s.* and has been lately as high as *4l.* 13*s.* per oz.

We may therefore fairly conclude that this difference in the relative value, or, in other words, that this depreciation in the actual value of bank-notes has been caused by the too abundant quantity which the Bank has sent into circulation. The same cause which has produced a difference of from fifteen to twenty per cent. in bank-notes when compared with

In the latter end of 1795, when the Bank had considerably more notes in circulation than either the preceding or the subsequent year, when their embarrassments had already commenced, when they appear to have resigned all prudence in the management of their concerns, and to have constituted Mr. Pitt sole director, the price of gold bullion did for a short time rise to *4l.* 3*s.* or *4l.* 4*s.* per oz.; but the directors were not without their fears for the consequences. In a remonstrance sent by them to Mr. Pitt, dated October 1795, after stating, " that the demand for gold not appearing likely " soon to cease," and " that it had excited great apprehension in the " court of directors," they observe, " The present price of gold " being *4l.* 3*s.* to *4l.* 4*s.* per ounce, and our guineas being to be " purchased at *3l.* 17*s.* 10½*d.*, clearly demonstrates the grounds of " our fears; *it being only necessary to state those facts to the* " *Chancellor of the Exchequer.*" It is remarkable that no price of gold above the mint price is quoted during the whole year in Wetenhall's list. In December it is there marked *3l.* 17*s.* 6*d.*

gold bullion, may increase it to fifty per cent. There can be no limit to the depreciation which may arise from a constantly increasing quantity of paper. The stimulus which a redundant currency gives to the exportation of the coin, has acquired new force, but cannot, as formerly, relieve itself. We have paper money only in circulation, which is necessarily confined to ourselves. Every increase in its quantity degrades it below the value of gold and silver bullion, below the value of the currencies of other countries.

The effect is the same as that which would have been produced from clipping our coins.

If one-fifth were taken off from every guinea, the market price of gold bullion would rise one-fifth above the mint price. Forty-four guineas and a half (the number of guineas weighing a pound, and therefore called the mint price,) would no longer weigh a pound, therefore a fifth more than that quantity, or about 56*l.*, would be the price of a pound of gold, and the difference between the market and the mint price, between 56*l.* and 46*l.* 14*s.* 6*d.*, would measure the depreciation.

If such debased coin were to continue to be called by the name of guineas, and if the value of gold bullion and all other commodities were rated in the debased coin, a guinea fresh from the mint would be said to be worth 1*l.* 5*s.* and that sum would be given for it by the illicit trader; but it would not be the value of the new guinea which had increased, but that of the

debased guineas which had fallen. This would immediately be evident, if a proclamation were issued, prohibiting the debased guineas from being current but by weight at the mint price of 3*l.* 17*s.* 10½*d.*; this would be constituting the new and heavy guineas, the standard measure of value, in lieu of the clipped and debased guineas. The latter would then pass at their true value, and be called 17 or 18 shillings-pieces. So if a proclamation to the same effect were now enforced, bank-notes would not be less current, but would pass only for the value of the gold bullion which they would purchase. A guinea would then no longer be said to be worth 1*l.* 5*s.* but a pound note would be current only for 16 or 17 shillings. At present gold coin is only a commodity, and bank-notes are the standard measure of value, but in that case gold coin would be that measure, and bank-notes would be the marketable commodity.

" It is," says Mr. Thornton, " the maintenance of " our general exchanges, or, in other words, it is the " agreement of the mint price with the bullion price " of gold, which seems to be the true proof that the " circulating paper is not depreciated."

When the motive for exporting gold occurs, while the Bank do not pay in specie, and gold cannot therefore be obtained at its mint price, the small quantity that can be procured will be collected for exportation, and bank-notes will be sold at a discount for gold in proportion to their excess. In saying however that gold is at a high price, we are mistaken; it is not gold, it

is paper which has changed its value. Compare an ounce of gold, or *3l. 17s. 10½d.* to commodities, it bears the same proportion to them which it has before done; and if it do not, it is referrible to increased taxation, or to some of those causes which are so constantly operating on its value. But if we compare the substitute of an ounce of gold, *3l. 17s. 10½d.* in bank-notes, with commodities, we shall then discover the depreciation of the bank-notes. In every market of the world I am obliged to part with *4l. 10s.* in bank-notes to purchase the same quantity of commodities which I can obtain for the gold that is in *3l. 17s. 10½d.* of coin.

It is often asserted, that a guinea is worth at Hamburgh 26 or 28 shillings; but we should be very much deceived if we should therefore conclude that a guinea could be sold at Hamburgh for as much silver as is contained in 26 or 28 shillings. Before the alteration in the relative value of gold and silver, a guinea would not sell at Hamburgh for as much silver coin as is contained in 21 standard shillings; it will at the present market price sell for a sum of silver currency, which, if imported and carried to our mint to be coined, will produce in our standard silver coin 21*s.* 5*d.**

It is nevertheless true, that the same quantity of silver will, at Hamburgh, purchase a bill payable in London, in Bank-notes, for 26 or 28 shillings. Can there be a more satisfactory proof of the depreciation of our circulating medium?

* The relative value of gold and silver is on the Continent nearly the same as in London.

It is said, that, if the Restriction-bill were not in force, every guinea would leave the country.*

This is, no doubt, true; but if the Bank were to diminish the quantity of their notes until they had increased their value fifteen per cent., the restriction might be safely removed, as there would then be no temptation to export specie. However long it may be deferred, however great may be the discount on their notes, the Bank can never resume their payments in specie, until they first reduce the amount of their notes in circulation to these limits.

The law is allowed by all writers on political economy to be a useless barrier against the exportation of guineas; it is so easily evaded, that it is doubted whether it has had the effect of keeping a single guinea more in England than there would have been without such law. Mr. Locke, Sir J. Stuart, Dr. A. Smith, Lord Liverpool, and Mr. Thornton, all agree on this subject. The latter gentleman observes, "That the "state of the British law unquestionably serves to dis-"courage and limit, though not effectually to hinder, "that exportation of guineas which is encouraged by "an unfavourable balance of trade, and perhaps "scarcely lessens it when the profit on exportation "becomes very great." Yet after every guinea that can in the present state of things be procured by the

* It must be meant that every guinea in the Bank would leave the country; the temptation of fifteen per cent. is amply sufficient to send those out which can be collected from the circulation.

illicit trader, has been melted and exported, he will hesitate before he openly buys guineas with bank-notes at a premium, because, though considerable profit may attend such speculation, he will thereby render himself an object of suspicion. He may be watched and prevented from effecting his object. As the penalties of the law are severe, and the temptation to informers great, secrecy is essential to his operations. When guineas can be procured by merely sending a bank-note for them to the Bank, the law will be easily evaded; but when it is necessary to collect them openly and from a widely diffused circulation, consisting almost wholly of paper, the advantage attending it must be very considerable before any one will encounter the risk of being detected.

When we reflect that above sixty millions sterling have been coined into guineas during his present Majesty's reign, we may form some idea of the extent to which the exportation of gold must have been carried. —But repeal the law against the exportation of guineas, permit them to be openly sent out of the country, and what can prevent an ounce of standard gold in guineas from selling at as good a price for bank-notes, as an ounce of Portugueze gold coin, or standard gold in bars, when it is known to be equal to them in fineness? And if an ounce of standard gold in guineas would sell in the market, as standard bars do now, at 4*l*. 10*s*. per oz., or as they have lately done at 4*l*. 13*s*. per oz., what shopkeeper would sell his goods at the same price either for gold or bank-notes indif-

ferently? If the price of a coat were 3*l.* 17*s.* 10½*d.*, or an ounce of gold, and if at the same time an ounce of gold would sell for 4*l.* 13*s.*, is it conceivable that it would be a matter of indifference to the tailor whether he were paid in gold or in bank-notes?

It is only because a guinea will not purchase more than a pound-note and a shilling, that many hesitate to allow that bank-notes are at a discount. The Edinburgh Review supports the same opinion; but if my reasoning be correct, I have shewn such objections to be groundless.

Mr. Thornton has told us that an unfavourable trade will account for an unfavourable exchange; but we have already seen that an unfavourable trade, if such be an accurate term, is limited in its effects on the exchange. That limit is probably four or five per cent. This will not account for a depreciation of fifteen or twenty per cent. Moreover Mr. Thornton has told us, and I entirely agree with him, "That it may "be laid down as a general truth, that the commercial "exports and imports of a state naturally proportion "themselves in some degree to each other, and that "the balance of trade therefore cannot continue for a "very long time to be either highly favourable, or "highly unfavourable to a country." Now the low exchange, so far from being temporary, existed before Mr. Thorunton wrote in 1802, and has since been progressively increasing, and is now from fifteen to twenty per cent. against us. Mr. Thornton must therefore according to his own principles attribute it

to some more permanent cause than an unfavourable balance of trade, and will, I doubt not, whatever his opinion may formerly have been, now agree that it is to be accounted for only by the depreciation of the circulating medium.

It can, I think, no longer be disputed that bank-notes are at a discount. While the price of gold bullion is *4l.* 10*s.* per oz., or in other words, while any man will consent to give that which professes to be an obligation to pay nearly an ounce, and a sixth of an ounce of gold, for an ounce, it cannot be contended that *4l.* 10*s.* in notes and *4l.* 10*s.* in gold coin are of the same value.

An ounce of gold is coined into *3l.* 17*s.* 10½*d.*; by possessing that sum therefore I have an ounce of gold, and would not give *4l.* 10*s.* in gold coin, or notes which I could immediately exchange for *4l.* 10*s.*, for an ounce of gold.

It is contrary to common sense to suppose that such could be the market value, unless the price were estimated in a depreciated medium.

If the price of gold were estimated in *silver* indeed, the price might rise to *4l.*, *5l.*, or 10*l.* an oz. and it would, of itself, be no proof of the depreciation of paper currency, but of an alteration in the relative value of gold and silver. I have, however, I think proved, that silver is not the standard measure of value, and therefore not the medium in which the value of gold is estimated. But if it were; as an ounce of gold is only worth in the market 15½ oz. of silver, and

as $15\frac{1}{2}$ ounces of silver is precisely equal in weight, and is therefore coined into 80 shillings, an ounce of gold ought not to sell for more than 4*l.*

Those then who maintain that silver is the measure of value, cannot prove that any demand for gold which may have taken place, from whatever cause it may have proceeded, can have raised its price above 4*l.* per oz. All above that price must, on their own principles, be called a depreciation in the value of bank notes. It therefore follows, that if bank-notes be the representative of silver coin, then an ounce of gold, selling as it now does for 4*l.* 10*s.* sells for an amount of notes which represent $17\frac{1}{2}$ ounces of silver, whereas in the bullion market it can only be exchanged for $15\frac{1}{2}$ ounces. Fifteen ounces and a half of silver bullion are therefore of equal value with an engagement of the Bank to pay to *bearer* seventeen ounces and a half.

The market price of silver is at the present time 5*s.* $9\frac{1}{2}$*d.* per oz. estimated in bank-notes, the mint price being only 5*s.* 2*d.*, consequently the standard silver in 100*l.* is worth more than 112*l.* in bank-notes.

But bank-notes, it may be said, are the representatives of our debased silver coin, and not of our standard silver. This is not true, because the law which I have already quoted declares silver to be a legal tender for sums only not exceeding 25*l.* except by weight. If the Bank insisted on paying the holder of a bank-note of 1000*l.* in silver coin, they would be bound either to give him standard silver of full weight, or

debased silver of an equal value, with the exception of 25*l.* which they might pay him in debased coin. But the 1000*l.* so consisting of 975*l.* pure money, and 25*l.* debased, is worth more than 1112*l.* at the present market value of silver bullion.

It is said that the amount of bank-notes has not increased in a greater proportion than the augmentation of our trade required, and therefore cannot be excessive. This assertion would be difficult to prove, and if true, no argument but what is delusive could be founded on it. In the first place, the daily improvements which we are making in the art of economizing the use of circulating medium, by improved methods of banking, would render the same amount of notes excessive now, which were necessary for the same state of commerce at a former period. Secondly, there is a constant competition between the Bank of England and the country-banks to establish their notes, to the exclusion of those of their rivals, in every district where the country banks are established.

As the latter have more than doubled in number within very few years, is it not probable that their activity may have been crowned with success, in displacing with their own notes many of those of the Bank of England?

If this have happened, the same amount of Bank of England notes would now be excessive; which, with a less extended commerce, was before barely sufficient to keep our currency on a level with that of other countries. No just conclusion can therefore be drawn

from the actual amount of bank-notes in circulation, though the fact, if examined, would, I have no doubt, be found to be, that the increase in the amount of bank-notes, and the high price of gold, have usually accompanied each other.

It is doubted, whether two or three millions of Bank-notes (the sum which the Bank is supposed to have added to the circulation, over and above the amount which it will easily bear,) could have had such effects as are ascribed to them; but it should be recollected, that the Bank regulate the amount of the circulation of all the country banks, and it is probable, that if the Bank increase their issues three millions, they enable the country banks to add more than twelve millions to the general circulation of England.

The money of a particular country is divided amongst its different provinces by the same rules as the money of the world is divided amongst the different nations of which it is composed. Each district will retain in its circulation such a proportionate share of the currency of the country, as its trade, and consequently its payments may require, compared to the trade of the whole; and no increase can take place in the circulating medium of one district, without being generally diffused, or calling forth a proportionable quantity in every other district. It is this which keeps a country-bank note always of the same value as a Bank of England note. If in London, where Bank of England notes only are current, one million be added to the amount in circulation, the currency will be-

come cheaper there than elsewhere, or goods will be come dearer. Goods will, therefore, be sent from the country to the London market, to be sold at the high prices, or which is much more probable, the country banks will take advantage of the relative deficiency in the country currency, and increase the amount of their notes in the same proportion as the Bank of England had done ; prices would then be generally, and not partially affected.

In the same manner, if Bank of England notes be diminished one million, the comparative value of the currency of London will be increased, and the prices of goods diminished. A Bank of England note will then be more valuable than a country-bank note, because it will be wanted to purchase goods in the cheap market ; and as the country banks are obliged to give Bank of England notes for their own when demanded, they would be called upon for them till the quantity of country paper should be reduced to the same proportion which it before bore to the London paper, producing a corresponding fall in the prices of all goods for which it was exchangeable.

The country banks could never increase the amount of their notes, unless to fill up a relative deficiency in the country currency, caused by the increased issues of the Bank of England*. If they attempted it, the

* They might, on some occasions, displace Bank of England notes, but that consideration does not affect the question which we are now discussing.

same check which compelled the Bank of England to withdraw part of their notes from circulation when they used to pay them on demand in specie, would oblige the country banks to adopt the same course. Their notes would, on account of the increased quantity, be rendered of less value than the Bank of England notes, in the same manner as Bank of England notes were rendered of less value than the guineas which they represented. They would therefore be exchanged for Bank of England notes until they were of the same value.

The Bank of England is the great regulator of the country paper. When they increase or decrease the amount of their notes, the country banks do the same; and in no case can country banks add to the general circulation, unless the Bank of England shall have previously increased the amount of their notes.

It is contended, that the rate of interest, and not the price of gold or silver bullion, is the criterion by which we may always judge of the abundance of paper-money; that if it were too abundant, interest would fall, and if not sufficiently so, interest would rise. It can, I think, be made manifest, that the rate of interest is not regulated by the abundance or scarcity of money, but by the abundance or scarcity of that part of capital, not consisting of money.

" Money," observes Dr. A. Smith, " the great
" wheel of circulation, the great instrument of com-
" merce, like all other instruments of trade, though
" it makes a part, and a very valuable part of the capi-

"tal, makes no part of the revenue of the society to "which it belongs; and though the metal pieces of "which it is composed, in the course of their annual "circulation, distribute to every man the revenue "which properly belongs to him, they make them- "selves no part of that revenue.

"When we compute the quantity of industry which "the circulating capital of any society can employ, "we must always have regard to those parts of it "only which consist in provisions, materials, and "finished work: the other, which consists in money, "and which serves only to circulate those three, must "always be deducted. In order to put industry into "motion, three things are requisite:—materials to "work upon, tools to work with, and the wages or "recompense for the sake of which the work is done. "Money is neither a material to work upon, nor a "tool to work with; and though the wages of the "workman are commonly paid to him in money, his "real revenue, like that of all other men, consists not "in money, but in money's worth; not in the metal "pieces, but what can be got for them."

And in other parts of his work, it is maintained, that the discovery of the mines in America, which so greatly increased the quantity of money, did not lessen the interest for the use of it: the rate of interest being regulated by the profits on the employment of capital, and not by the number or quality of the pieces of metal, which are used to circulate its produce.

Mr. Hume has supported the same opinion. The

value of the circulating medium of every country bears some proportion to the value of the commodities which it circulates. In some countries this proportion is much greater than in others, and varies, on some occasions, in the same country. It depends upon the rapidity of circulation, upon the degree of confidence and credit existing between traders, and above all, on the judicious operations of banking. In England so many means of economizing the use of circulating medium have been adopted, that its value, compared with the value of the commodities which it circulates, is probably (during a period of confidence*) reduced to as small a proportion as is practicable. What that proportion may be has been variously estimated.

No increase or decrease of its quantity, whether consisting of gold, silver, or paper-money, can increase or decrease its value above or below this proportion. If the mines cease to supply the annual consumption of the precious metals, money will become more valuable, and a smaller quantity will be employed as a circulating medium. The diminution in the quantity will be proportioned to the increase of its value. In like manner, if new mines be discovered, the value of the precious metals will be reduced, and an increased quantity used in the circulation; so that in either case the relative value of money, to the commodities which it circulates, will continue as before.

* In the following observations, I wish to be understood, as supposing always the same degree of confidence and credit to exist.

If, whilst the Bank paid their notes on demand in specie, they were to increase their quantity, they would produce little permanent effect on the value of the currency, because nearly an equal quantity of the coin would be withdrawn from circulation and exported.

If the Bank were restricted from paying their notes in specie, and all the coin had been exported, any excess of their notes would depreciate the value of the circulating medium in proportion to the excess. If twenty millions had been the circulation of England before the restriction, and four millions were added to it, the twenty-four millions would be of no more value than the twenty were before, provided commodities had remained the same, and there had been no corresponding exportation of coins; and if the Bank were successively to increase it to fifty, or a hundred millions, the increased quantity would be all absorbed in the circulation of England, but would be, in all cases, depreciated to the value of the twenty millions.

I do not dispute, that if the Bank were to bring a large additional sum of notes into the market, and offer them on loan, but that they would for a time affect the rate of interest. The same effects would follow from the discovery of a hidden treasure of gold or silver coin. If the amount were large, the Bank, or the owner of the treasure, might not be able to lend the notes or the money at four, nor perhaps, above three per cent.; but having done so, neither the notes, nor the money, would be retained unemployed by the borrowers; they would be sent into every market, and

would every where raise the prices of commodities, till they were absorbed in the general circulation. It is only during the interval of the issues of the Bank, and their effect on prices, that we should be sensible of an abundance of money; interest would, during that interval, be under its natural level; but as soon as the additional sum of notes or of money became absorbed in the general circulation, the rate of interest would be as high, and new loans would be demanded with as much eagerness as before the additional issues.

The circulation can never be over-full. If it be one of gold and silver, any increase in its quantity will be spread over the world. If it be one of paper, it will diffuse itself only in the country where it is issued. Its effects on prices will then be only local and nominal, as a compensation by means of the exchange will be made to foreign purchasers.

To suppose that any increased issues of the Bank can have the effect of permanently lowering the rate of interest, and satisfying the demands of all borrowers, so that there will be none to apply for new loans, or that a productive gold or silver mine can have such an effect, is to attribute a power to the circulating medium which it can never possess. Banks would, if this were possible, become powerful engines indeed. By creating paper money, and lending it at three or two per cent. under the present market rate of interest, the Bank would reduce the profits on trade in the same proportion; and if they were sufficiently patriotic to lend their notes at an interest no higher than necessary to

pay the expences of their establishment, profits would be still further reduced; no nation, but by similar means, could enter into competition with us, we should engross the trade of the world. To what absurdities would not such a theory lead us! Profits can only be lowered by a competition of capitals not consisting of circulating medium. As the increase of Bank-notes does not add to this species of capital, as it neither increases our exportable commodities, our machinery, or our raw materials, it cannot add to our profits nor lower interest*.

When any one borrows money for the purpose of entering into trade, he borrows it as a medium by which he can possess himself of "materials, provisions, &c." to carry on that trade; and it can be of little consequence to him, provided he obtain the quantity of materials, &c. necessary, whether he be obliged to borrow a thousand, or ten thousand pieces of money. If he borrow ten thousand, the produce of his manufacture will be ten times the nominal value of what it would have been, had one thousand been sufficient for the same purpose. The capital actually

* I have already allowed that the Bank, as far as they enable us to turn our coin into "materials, provisions, &c." have produced a national benefit, as they have thereby increased the quantity of productive capital; but I am here speaking of an excess of their notes, of that quantity which adds to our circulation without effecting any corresponding exportation of coin, and which, therefore, degrades the notes below the value of the bullion contained in the coin which they represent.

employed in the country is necessarily limited to the amount of the "materials, provisions, &c." and might be made equally productive, though not with equal facility, if trade were carried on wholly by barter. The successive possessors of the circulating medium have the command over this capital: but however abundant may be the quantity of money or of bank-notes; though it may increase the nominal prices of commodities; though it may distribute the productive capital in different proportions; though the Bank, by increasing the quantity of their notes, may enable A to carry on part of the business formerly engrossed by B and C, nothing will be added to the real revenue and wealth of the country. B and C may be injured, and A and the Bank may be gainers, but they will gain exactly what B and C lose. There will be a violent and an unjust transfer of property, but no benefit whatever will be gained by the community.

For these reasons I am of opinion that the funds are not indebted for their high price to the depreciation of our currency. Their price must be regulated by the general rate of interest given for money. If before the depreciation I gave thirty years' purchase for land, and twenty-five for an annuity in the stocks, I can after the depreciation give a larger sum for the purchase of land, without giving more years' purchase, because the produce of the land will sell for a greater nominal value in consequence of the depreciation; but as the annuity in the funds is paid in the depreciated medium, there can be no reason why I should

give a greater nominal value for it after than before the depreciation.

If guineas were degraded by clipping to half their present value, every commodity as well as land would rise to double its present nominal value; but as the interest of the stocks would be paid in the degraded guineas, they would, on that account, experience no rise.

The remedy which I propose for all the evils in our currency, is that the Bank should gradually decrease the amount of their notes in circulation until they shall have rendered the remainder of equal value with the coins which they represent, or, in other words, till the prices of gold and silver bullion shall be brought down to their mint price. I am well aware that the total failure of paper credit would be attended with the most disastrous consequences to the trade and commerce of the country, and even its sudden limitation would occasion so much ruin and distress, that it would be highly inexpedient to have recourse to it as the means of restoring our currency to its just and equitable value.

If the Bank were possessed of more guineas than they had notes in circulation, they could not, without great injury to the country, pay their notes in specie, while the price of gold bullion continued greatly above the mint price, and the foreign exchanges unfavourable to us. The excess of our currency would be exchanged for guineas at the Bank and exported, and would be suddenly withdrawn from circulation.

Before therefore they can safely pay in specie, the excess of notes must be gradually withdrawn from circulation. If gradually done, little inconvenience would be felt; so that the principle were fairly admitted, it would be for future consideration whether the object should be accomplished in one year or in five. I am fully persuaded that we shall never restore our currency to its equitable state, but by this preliminary step, or by the total overthrow of our paper credit.

If the Bank directors had kept the amount of their notes within reasonable bounds; *if they had acted up to the principle which they have avowed to have been that which regulated their issues when they were obliged to pay their notes in specie, namely, to limit their notes to that amount which should prevent the excess of the market above the mint price of gold, we should not have been now exposed to all the evils of a depreciated, and perpetually varying currency.*

Though the Bank derive considerable advantage from the present system, though the price of their capital stock has nearly doubled since 1797, and their dividends have proportionally increased, I am ready to admit with Mr. Thornton, that the directors, as monied men, sustain losses in common with others by a depreciation of the currency, much more serious to them than any advantages which they may reap from it as proprietors of Bank stock. I do therefore acquit them of being influenced by interested motives, but their mistakes, if they are such, are in their effects quite as pernicious to the community.

The extraordinary powers with which they are entrusted, enable them to regulate at their pleasure the price at which those who are possessed of a particular kind of property, called money, shall dispose of it. The Bank directors have imposed upon these holders of money all the evils of a maximum. To-day it is their pleasure that 4*l.* 10*s.* shall pass for 3*l.* 17*s.* 10½*d.*, to-morrow they may degrade 4*l.* 15*s.* to the same value, and in another year 10*l.* may not be worth more. By what an insecure tenure is property consisting of money or annuities paid in money held! What security has the public creditor that the interest on the public debt, which is now paid in a medium depreciated fifteen per cent., may not hereafter be paid in one degraded fifty per cent.? The injury to private creditors is not less serious. A debt contracted in 1797, may now be paid with eighty-five per cent. of its amount, and who shall say that the depreciation will go no further?

The following observations of Dr. Smith on this subject are so important, that I cannot but recommend them to the serious attention of all thinking men.

"The raising the denomination of the coin has been "the most usual expedient by which a real public bank-"ruptcy has been disguised under the appearance of "a pretended payment. If a sixpence, for example, "should, either by act of parliament or royal procla-"mation, be raised to the denomination of a shilling, "and twenty sixpences to that of a pound sterling, "the person who under the old denomination had bor-

" rowed twenty shillings, or near four ounces of silver, would, under the new, pay with twenty sixpences, or with something less than two ounces. A national debt of about a hundred and twenty millions, nearly the capital of the funded debt of Great Britain, might in this manner be paid with about sixty-four millions of our present money. It would indeed be a pretended payment only, and the creditors of the public would be defrauded of ten shillings in the pound of what was due to them. The calamity too would extend much further than to the creditors of the public, and those of every private person would suffer a proportionable loss; and this without any advantage, but in most cases with a great additional loss, to the creditors of the public. If the creditors of the public indeed were generally much in debt to other people, they might in some measure compensate their loss by paying their creditors in the same coin in which the public had paid them. But in most countries the creditors of the public are, the greater part of them, wealthy people, who stand more in the relation of creditors than in that of debtors towards the rest of their fellow-citizens. A pretended payment of this kind, therefore instead of alleviating, aggravates in most cases the loss of the creditors of the public; and without any advantage to the public, extends the calamity to a great number of other innocent people. It occasions a general, and most pernicious subversion of the fortunes of private people; enriching in most cases the idle and

" profuse debtor at the expence of the industrious and
" frugal creditor, and transporting a great part of the
" national capital from the hands which are likely to
" increase and improve it, to those which are likely to
" dissipate and destroy it. When it becomes necessary
" for a state to declare itself bankrupt, in the same
" manner as when it becomes necessary for an indivi-
" dual to do so, a fair, open, and avowed bankruptcy
" is always the measure which is both least dishonour-
" able to the debtor, and least hurtful to the creditor.
" The honour of a state is surely very poorly provided
" for, when in order to cover the disgrace of a real
" bankruptcy, it has recourse to a juggling trick of this
" kind, so easily seen through, and at the same time so
" extremely pernicious."

These observations of Dr. Smith on a debased money, are equally applicable to a depreciated paper currency. He has enumerated but a few of the disastrous consequences which attend the debasement of the circulating medium, but he has sufficiently warned us against trying such dangerous experiments. It will be a circumstance ever to be lamented, if this great country, having before its eyes the consequences of a forced paper circulation in America and France, should persevere in a system pregnant with so much disaster. Let us hope that she will be more wise. It is said indeed that the cases are dissimilar: that the Bank of England is independent of government. If this were true, the evils of a superabundant circulation would not be less felt; but it may be questioned whether a

Bank lending many millions more to government than its capital and savings, can be called independent of that government.

When the order of council for suspending the cash payments became necessary in 1797, the run upon the Bank was, in my opinion, caused by political alarm alone, and not by a superabundant, or a deficient quantity (as some have supposed) of their notes in circulation*.

This is a danger to which the Bank, from the nature of its institution, is at all times liable. No prudence on the part of the directors could perhaps have averted it: but if their loans to government had been more limited; if the same amount of notes had been issued to the public through the medium of discounts; they would have been able, in all probability, to have continued their payments till the alarm had subsided. At any rate, as the debtors to the Bank would have been obliged to discharge their debts in the space of sixty days, that being the longest period for which any bill discounted by the Bank has to run, the directors would in that time, if necessary, have been enabled to redeem every note in circulation. It was then owing to the too intimate connection between the Bank and government, that the restriction became necessary; it is to that cause too that we owe its continuance.

To prevent the evil consequences which may attend

* At that period the price of gold kept steadily under its mint price.

the perseverance in this system, we must keep our eyes steadily fixed on the repeal of the Restriction-bill.

The only legitimate security which the public can possess against the indiscretion of the Bank is to oblige them to pay their notes on demand in specie; and this can only be effected by diminishing the amount of bank-notes in circulation till the nominal price of gold be lowered to the mint price.

Here I will conclude; happy if my feeble efforts should awaken the public attention to a due consideration of the state of our circulating medium. I am well aware that I have not added to the stock of information with which the public has been enlightened by many able writers on the same important subject. I have had no such ambition. My aim has been to introduce a calm and dispassionate enquiry into a question of great importance to the state, and the neglect of which may be attended with consequences which every friend of his country would deplore.

FINIS.

PRACTICAL

SERVATIONS

ON THE

REPORT

OF THE

ION-COMMITTEE.

IRLES BOSANQUET, Esq.

ND EDITION, CORRECTED,

WITH

A SUPPLEMENT.

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